MANITOBA

DEVELOPMENT

CORPORATION

Annual Report

March 2004

Manitoba

MANITOBA DEVELOPMENT CORPORATION

Financial Statements
March 31, 2004

Manitoba

MINISTER OF INDUSTRY, ECONOMIC
DEVELOPMENT AND MINES

Winnipeg, Manitoba, CANADA
R3C 0V8

His Honour
The Honourable John Harvard
Lieutenant Governor of Manitoba
Room 235 Legislative Building
405 Broadway Ave
Winnipeg MB R3C 0V8

Your Honour:

I am pleased to present the Annual Report for the Manitoba Development Corporation for the fiscal year ending March 31, 2004.

Respectfully submitted,

Scott Smith
Minister

Manitoba

Manitoba Development Corporation
1040 – 259 Portage Ave
Phone: 204-945-0141
Fax: 204-945-1193

Winnipeg Manitoba, CANADA
R3B 3P4

August 6, 2004

Honourable Scott Smith
Minister of Industry, Economic Development and Mines
Room 358 Legislative Building
Winnipeg MB R3C 0V8

Dear Minister Smith:

It is our pleasure to submit the Annual Report of the Manitoba Development Corporation for the fiscal year ended March 31, 2004, as required by Section 44 of the Development Corporation Act.

Respectfully submitted,

Hugh Eliasson
Chairperson

105-00154/

BDO

BDO Dunwoody LLP
Chartered Accountants
and Advisors
www.bdo.ca

700 - 200 Graham Avenue
Winnipeg Manitoba Canada R3C 4L5
Telephone (204) 956-7200
Telefax (204) 926-7201

Auditors' Report

To the Shareholder of
Manitoba Development Corporation

We have audited the balance sheet of **Manitoba Development Corporation** as at March 31, 2004 and the statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at March 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

BDO Dunwoody LLP

Chartered Accountants

Winnipeg, Manitoba
April 30, 2004

BDO Dunwoody LLP *is a Limited Liability Partnership registered in Ontario*

Manitoba

Manitoba Development Corporation
1040- 259 Portage Ave
Phone: 204-945-0141
Fax: 204-945-1193

Winnipeg Manitoba, CANADA
R3B 3P4

April 30, 2004

THE MANITOBA DEVELOPMENT CORPORATION
MANAGEMENT REPORT

The accompanying financial statements are the responsibility of management and have been prepared in conformity with the generally accepted accounting principles. The statements are examined by BDO Dunwoody LLP, Chartered Accountants, whose opinion is included herein.

To fulfil this responsibility, management maintains internal control systems to provide reasonable assurance that the accounts and records accurately reflect all transactions and that appropriate policies and procedures are established and respected.

BDO Dunwoody LLP have free access to the Board of Directors, with and without management present, to discuss the results of their audit and the quality of financial reporting to the Board.

James F. Kilgour, C.A.
General Manager

Jack Dalgliesh
Secretary-Treasurer

MANITOBA DEVELOPMENT CORPORATION
Balance Sheet

March 31	2004	2003
Assets		
Current Assets		
Cash	$ 422,808	$ 377,693
Term deposits - Province of Manitoba	3,242,818	3,155,959
Accounts receivable - other	4,567	58,521
	3,670,193	3,592,173
Assets managed for the Province of Manitoba under Part II		
Cash on hand held in trust	105,405	631,683
Loans receivable (Note 2)	74,398,726	64,692,218
Equity investments (Note 3)	6,140,255	5,108,189
	80,644,386	70,432,090
	$ 84,314,579	$ 74,024,263
Liabilities and Shareholder's Equity		
Current Liabilities		
Accounts payable - Part I	$ 309,903	$ 258,555
Funds Provided by the Province of Manitoba under Part II	80,644,386	70,432,090
	80,954,289	70,690,645
Commitments (Note 4)		
Shareholder's Equity		
Share capital - authorized and issued 100 shares at $10 per share	1,000	1,000
Retained earnings	3,359,290	3,332,618
	3,360,290	3,333,618
	$ 84,314,579	$ 74,024,263

Approved on behalf of the Board:

_____ Director

_____ Director

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

MANITOBA DEVELOPMENT CORPORATION
Statement of Operations and Retained Earnings

For the year ended March 31	2004	2003
Income from part I		
Interest	$ 144,446	$ 125,447
Expenses under Part I		
Administration	117,774	49,561
	26,672	75,886
Income from Part II		
Interest - loans receivable	3,970,404	3,668,883
Pro-rata share of partnership earnings	319,575	432,412
Recovery of Part II expenses from the Province of Manitoba		
Decrease in allowance for forgiveness	4,123,888	3,521,436
Decrease in provision in doubtful accounts	5,441,985	6,616,161
Decrease in provision for decline in value of investments	223,149	384,408
	14,079,001	14,623,300
Expenses under Part II		
Increase in allowance for loan forgiveness	4,123,888	3,521,436
Increase in allowance for doubtful accounts	5,441,985	6,616,161
Increase in provision for decline in value of investments	223,149	384,408
Repayment of Part II interest on loans receivable to the Province of Manitoba	3,970,404	3,668,883
Provision for repayment of pro-rata share of partnership earnings	319,575	432,412
	14,079,001	14,623,300
	-	-
Net income for the year	26,672	75,886
Retained earnings, beginning of year	3,332,618	3,256,732
Retained earnings, end of year	$ 3,359,290	$ 3,332,618

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

MANITOBA DEVELOPMENT CORPORATION
Statement of Cash Flows

For the year ended March 31	2004	2003
Provided by (used in) Part I Activities		
Cash Flows from Operating Activities		
Net income for the year	$ 26,672	$ 75,886
Changes in non-cash working capital balances		
Accounts receivable - other	53,954	(55,922)
Accounts payable	51,348	31,003
Net cash flow from Part I activities	131,974	50,967
Provided by (used in) Part II Activities		
Cash Flows from Investing Activities		
Loans receivable		
Principal repayments	9,657,033	15,588,409
Loans issued	(23,944,208)	(26,594,019)
Increase in accrued interest receivable	(56,377)	(39,548)
Loss on foreign exchange	342,500	-
	(14,001,052)	(11,045,158)
Equity investments		
Investments made	(1,029,552)	(1,644,709)
Redemptions	-	768,413
	(1,029,552)	(876,296)
	(15,030,604)	(11,921,454)
Increase (decrease) in cash on hand held in trust	526,278	445,404
Funds provided by the Province of Manitoba	14,504,326	11,476,050
Net cash flow from Part II activities	-	-
Net increase (decrease) in cash and cash equivalents	131,974	50,967
Cash and cash equivalents, beginning of year	3,533,652	3,482,685
Cash and cash equivalents, end of year	$ 3,665,626	$ 3,533,652
Represented by		
Cash on hand	$ 422,808	$ 377,693
Term deposits - Province of Manitoba	3,242,818	3,155,959
	$ 3,665,626	$ 3,533,652

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

MANITOBA DEVELOPMENT CORPORATION
Summary of Significant Accounting Policies

March 31, 2004

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results may differ from those estimates. The significant accounting policies used in these financial statements are as follows:

Loans Receivable Under Part II Loans are carried at the unpaid principal plus accrued interest, less allowance for doubtful loans. Loans considered uncollectible are written off.

Interest on loans is recorded as income on an accrual basis except for loans considered impaired. When a loan becomes impaired, recognition of interest ceases when the carrying amount of the loan (including accrued interest) exceeds the estimated realizable amount. The amount of ihitial impairment and any subsequent changes are recorded through the provision for doubtful loans as an adjustment of the specific allowance.

The allowance for doubtful loans is maintained at a level considered adequate to absorb credit losses existing in the portfolio. Specific allowances reduce the carrying value of loans identified as impaired to their net realizable amounts. In addition to specific allowances against identified impaired loans, the Corporation maintains a non-specific allowance to cover impairment which is inherent in the loan portfolio which is consistent with industry practice.

Equity Investments Under Part II The Corporation's equity in investments related to share capital investments are recorded at cost. The Corporation's investments in the Vision Capital Fund, the Manitoba Capital Fund, the Manitoba Science and Technology Fund, the Renaissance Capital Fund and the Western Life Sciences Venture Fund LLP are accounted for using the equity method of accounting. These investments were originally recorded at cost and the carrying value is adjusted thereafter to include the Corporation's pro rata share of post acquisition earnings for these investments. Such adjustments are correspondingly reflected in the balance sheet caption "Funds provided by the Province of Manitoba under Part II."

MANITOBA DEVELOPMENT CORPORATION
Summary of Significant Accounting Policies

March 31, 2004

Financial Instruments

The carrying amounts of short-term financial assets and liabilities are a reasonable estimate of the fair value because of the short maturity of those instruments.

The financial risk is the risk to the Corporation's Part I earnings that arise from fluctuations in interest rates and degree of volatility of these rates. Because Part II activities are directed by the Province of Manitoba, any exposure for these financial assets and liabilities to interest rate fluctuations or changes to their fair value would be borne by the Province. Credit risk relating to the realization of assets managed for the Province of Manitoba under Part II is borne by the Province.

All financial instruments are denominated in Canadian dollars.

The Corporation does not participate in derivative financial instrument trading.

Operating Losses

Losses under Part I and under Part II of the Corporation are the responsibility of the Province and are charged directly against advances received from the Province.

Cash

For the purpose of the statement of cash flows, cash includes cash and term deposits with the Province of Manitoba with maturities of up to three months.

Foreign Currency Translation

Foreign currency accounts are translated into Canadian dollars as follows:

At the transaction date, each asset, liability, revenue and expense is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the year end date, monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at that date. The resulting foreign exchange gains and losses are included in income in the current period except for the foreign currency gains and losses on long-term monetary items which are deferred and amortized over the remaining terms of the related items.

1. Nature of Operations and Economic Dependence

The Manitoba Development Corporation (The Corporation) provides loans and guarantees under Part I and Part II of the Development Corporation Act. The activities under Part I and Part II are accounted for separately. Part I activities are undertaken at the initiative of the Corporation, while Part II activities are at the direction of the Province of Manitoba.

The Corporation's lending operations under Part I were suspended effective November 15, 1977 except at the direction of the Province of Manitoba. The Corporation's lending and investment operations under Part II continue under the direction of the Province of Manitoba. The Province provides all financing for these initiatives and ultimately bears all costs, including any exposure for these financial assets to interest rate fluctuations, changes to their fair value or credit risk relating to the realization of these assets.

2. Loans Receivable Managed for the Province of Manitoba Under Part II

	2004	2003
Business support		
Manitoba Industrial Opportunities Program		
- Repayable	$ 89,012,973	$ 72,015,565
- Forgivable	4,888,759	9,012,647
Manufacturing Adaptation Program	3,510	4,660
Canada - Manitoba Economic Development Partnership	446,680	461,542
	94,351,922	81,494,414
Other loans receivable		
Manitoba Film and Sound	140,634	193,595
Elmwood Cemetery	75,000	75,000
International Education Incentive Loan	22,400	22,400
	238,034	290,995
	94,589,956	81,785,409
Less: Allowance for forgiveness	4,888,759	9,012,647
Allowance for doubtful accounts	15,302,471	8,080,544
	20,191,230	17,093,191
	$ 74,398,726	$ 64,692,218

2. Loans Receivable Managed for the Province of Manitoba Under Part II (Continued)

The Manitoba Industrial Opportunities Program provides flexible repayable financing to encourage companies to expand or locate in Manitoba. Loan principal is due as follows:

	2004	2003
2005	$ 10,424,061	$ 7,690,155
2006	5,971,057	8,828,413
2007	6,445,819	5,767,681
2008	20,734,330	5,075,133
2009	6,918,787	8,619,866
Subsequent to 2009	38,327,939	35,649,454
Accrued interest	190,980	384,863
	89,012,973	72,015,565
Allowance	(14,852,282)	(8,075,890)
	$ 74,160,691	$ 63,939,675

Interest rates charged for Manitoba Industrial Opportunities loans are fixed in reference to the Corporation's cost of borrowing from the Province of Manitoba at the time of the first disbursement of the loan proceeds to the debtor. In some cases, per the terms of individual loan agreements, interest rates may be adjusted during the term of the loan based on the Corporation's cost of borrowing from the province of Manitoba at a date(s) specified in the loan agreement. In certain cases, the Corporation charges interest rates which are less than its cost of borrowing to encourage investment and job creation in Manitoba. In other cases, the Corporation charges rates in excess of its cost of borrowing to reflect risk conditions. Interest rates charged on loans are as follows:

	2004	2003
Nil	$ 1,704,175	$ 2,908,945
Greater than Nil, less than 5%	24,898,095	7,906,080
5% or greater, less than 6%	20,789,416	21,912,605
6% or greater, less than 7%	31,476,140	7,863,436
7% or greater, less than 8%	7,829,167	29,039,636
8% or greater, less than 9%	2,000,000	2,000,000
9% or greater, less than 10%	125,000	-
Accrued interest	190,980	384,863
	89,012,973	72,015,565
Allowance	(14,852,282)	(8,075,890)
	$ 74,160,691	$ 63,939,675

When possible, the Corporation obtains various forms of security on the Manitoba Industrial Opportunities loans with priority ranking subject to any prior existing charges.

2. Loans Receivable Managed for the Province of Manitoba Under Part II (Continued)

In exchange for contractual obligations which normally commit debtor companies to create and maintain jobs, the Corporation has provided forgivable loans. A portion of these loans is normally forgiven annually subject to the Corporation's confirmation that jobs have been created and maintained. Forgivable loans together with projected timing of forgiveness are as follows:

	2004	2003
Forgivable within 1 year	$ 1,296,843	$ 2,248,888
Forgivable within 2 years	940,140	1,296,843
Forgivable within 3 years	940,140	940,140
Forgivable in more than 3 years	1,711,636	4,526,776
	$ 4,888,759	$ 9,012,647

During the year, an amount of $1,875,000 was transferred from forgivable to repayable loans due to debtor companies not satisfying the contractual obligations required for forgiveness.

The Corporation also manages a number of other loan programs on behalf of the Province of Manitoba.

3. Equity Investments Managed for the Province of Manitoba Under Part II

	2004	2003
Share capital investments		
Class C preferred shares of C.A.R.E. Corp.	$ -	$ 39,570
Faneul ISG Inc.	1	1
	1	39,571
Less: Allowance for forgiveness of shares	1	39,571
	-	-
Limited Partnership Investments		
Vision Capital Fund	1	1
Manitoba Capital Fund	4,363,200	4,363,200
Manitoba Science and Technology Fund	1,611,069	1,375,429
Renaissance Capital Fund	3,000,000	3,000,000
Western Life Sciences Venture Fund LLP	2,050,000	1,350,000
	11,024,270	10,088,630
Less: Provision for decline in value of investments	7,131,962	6,908,813
Pro-rata share of partnership earnings	(2,247,947)	(1,928,372)
	4,884,015	4,980,441
	$ 6,140,255	$ 5,108,189

3. Equity Investments Managed for the Province of Manitoba Under Part II (Continued)

The corporation holds 39,570 Class C non-voting preferred shares of C.A.R.E. Corp. at March 31, 2004. These preferred shares were cancelable on an annual basis at the rate of $10,000 for every job held at C.A.R.E. Corp., commencing February 1999. During the year, the Corporation cancelled the remaining 39,570 of these shares (2003 - 227,800).

On January 17, 2002, Faneuil ISG Inc. was purchased by 3863620 Canada Limited. As a result of this transaction, the Province agreed to convert its existing investment into 11,000,000 preference shares of 3863620 Canada Limited, with scheduled redemption dates as follows:

2005 - $Nil	2008 - $2,000,000
2006 - $Nil	2009 - $6,400,000*
2007 - $2,000,000	* (net of $600,000 in legal fees)

The investment in preference shares has been recorded in the books of the Corporation at a nominal value of $1. Any funds received upon redemption of the preference shares will accordingly result in the recognition of an equal amount of income at that time.

4. Contingent Liability and Commitments

Commitments and undisbursed balances of approved loans under Part II:

	2004	2003
Manitoba Industrial Opportunities Program	**$ 27,257,446**	$ 36,781,073
Canada - Manitoba Economic Development Partnership	**28,320**	38,458
Manitoba Science & Technology Fund	**888,931**	1,124,570
Manitoba Capital Fund	**353,334**	636,800
Western Life Sciences Venture Fund LLP	**2,950,000**	3,650,000
	$ 31,478,031	$ 42,230,901

5. Financial Instruments

The carrying amounts of Part I financial assets and liabilities are a reasonable estimate of the fair value because of the short maturity of those instruments. The carrying amount of Part II financial assets and liabilities approximate their fair value. In the absence of readily ascertainable market values, management has estimated that fair value would not differ materially from carrying value. Factors considered in this determination include underlying collateral, market conditions, financial data and projections of the borrowers. Because of the inherent uncertainty of valuation, the estimate of fair value may differ significantly from the values that would have been used had a ready market for the assets existed.

The financial risk is the risk to the Corporation's Part I earnings that arise from fluctuations in interest rates and degree of volatility of these rates.

All financial instruments are denominated in Canadian dollars.

The Corporation does not participate in derivative financial instrument trading.

6. Adjustment to Prior Year's Loans Receivable and Equity Investments

During the current year it was determined that, per the terms of the loan agreement, the loan shown as receivable from the Vision Capital Fund as at March 31, 2003 in the amount of $10,803,890 had been repaid in full through a combination of cash payments and investment write-downs during that fiscal year. Accordingly no balance was receivable at March 31, 2003. As a result the comparative figures have been restated to reflect this change, together with a corresponding reduction in the allowance for doubtful accounts, resulting in no net change to the net loans receivable.

Also related to this change, the amount of $161,986, previously reported on the Statement of Operations and Retained Earnings as gain on investment disposition, has been recategorized as Pro-rata share of partnership earnings (increasing this balance from $270,426 to $432,412) to reflect the fact that this payment from Vision Capital Fund as being on account of the Corporation's equity position in the Fund and not related to settlement of the loan receivable. This change also increases the cumulative Pro-rata share of partnership earnings reflected as part of Equity Investments Managed for the Province of Manitoba Under Part II, with a corresponding increase from $4,946,202 to $5,108,188. All these changes are offset by corresponding changes to the Province of Manitoba accounts, consistent with the treatment of all transactions under Part II, resulting in no change to the Corporation's Retained Earnings.